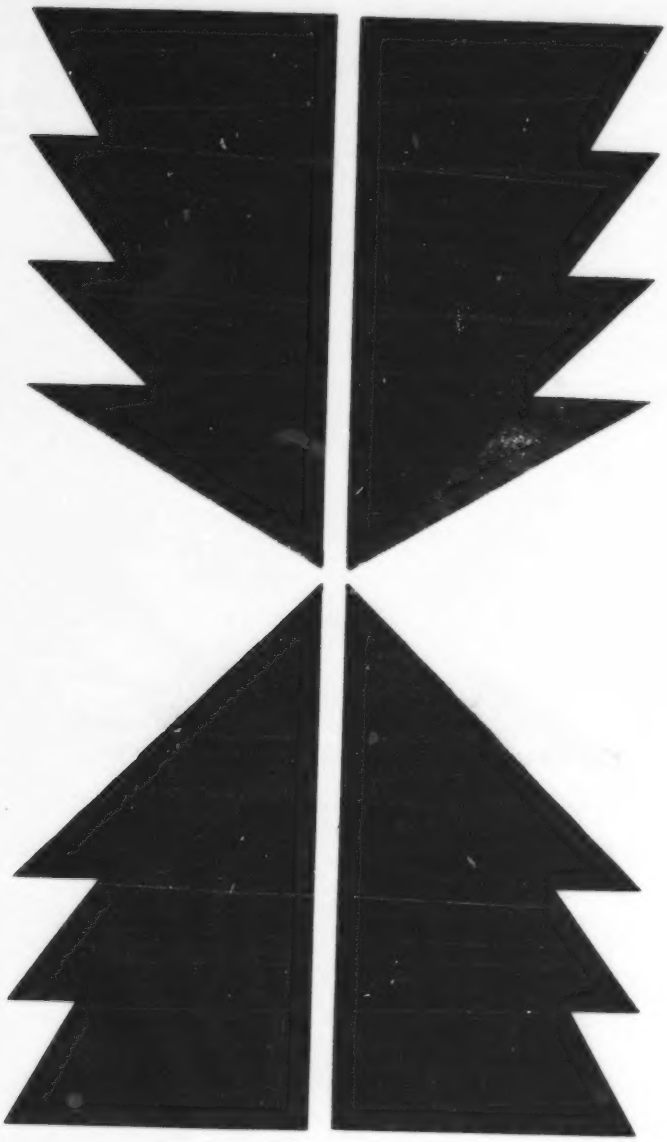
A Discussion Paper on Financing Municipal Government



Issued by the
Honourable Gordon Wray
Minister of Municipal and Community Affairs

March 1989

Northwest Territories Municipal and Community Affairs

91-01823/

Dear Mayors, Chairpersons, Community Leaders, and Municipal and Settlement Councillors:

Local governments across the North continue to face the challenges of meeting the demand for better municipal services with limited resources, and with rapid population growth in their communities. The Government of the Northwest Territories recognizes and supports the important role of municipal governments in serving the public; and this year the Department of Municipal and Community Affairs will provide over $52 million in direct contributions to local governments. As well, the Department will be doing nearly $33 million of capital work with and on behalf of local governments. I see the Department of Municipal and Community Affairs as a partner with the municipal and community governments as they meet local needs.

The following Public Discussion Paper outlines the major municipal programs for which the Department has provided funding assistance over the past several years. In most cases the Department has given financial grants and contributions to the municipal councils and allowed them to spend the funds on municipal programs as they have seen fit. In other cases — especially in financing the construction of new municipal buildings and facilities and purchasing new vehicles and other equipment — the Department has provided grants and contributions for these "capital" programs to municipal councils on certain conditions. In the case of municipal or community governments which do not have municipal taxing authority, the Department has provided new capital buildings or equipment on behalf of the local governments.

When I became the Minister of Municipal and Community Affairs in the fall of 1985 I felt it was time for the Department to review its policies and programs of financial assistance to local governments. Some of these programs had been running for a long time and others were added in the recent past. It was time to determine whether they are still meeting the needs and priorities of local governments as they approach the 1990's. It was also time to undertake new policies to assist municipal governments in responding to major new pressures in the communities. I directed my Department to look at new approaches to municipal financial assistance that could provide more common coverage to all forms of local governments in the Northwest Territories.

The Department has over the past several years been working on municipal finance proposals related to municipal capital and operations funding. These are described in the following Public Discussion paper. I felt it would be most appropriate to present these proposals in a comprehensive manner, allowing each municipal government to assess their implications, and advise me accordingly. In other words, when you are looking at each major area of municipal financing, please ask yourself:

- Is the Department of Municipal and Community Affairs going in the right direction in this area?
- What will the impact be on my local government and community?
- How can my local government become more self-reliant and financially independent?
- How can my local government become more efficient and effective in managing public funds?

Both levels of government — local as well as Territorial — will have to manage more effectively — now and in the years to come. For local governments this means that they will be challenged to find more local sources of revenue, both for their day-to-day operations and maintenance (O&M) programs and for financing new capital facilities and equipment. It means that innovative proposals, such as providing debt financing for land development, will be viewed positively by my Department. It should also mean that municipal councils take a good, careful look at their municipal services to determine whether some could be more effectively delivered through contracts with local businesses. Developing communities which do not presently have the authority to levy and collect municipal property taxes should consider taking advantage of the opportunity in the *Property Assessment and Taxation Act* to apply to become municipal taxing authorities.

These are the issues which I want to bring to your close attention in this Public Discussion Paper. During this spring and summer my Department and I would very much welcome your comments and suggestions on how the directions we are describing will affect your local government and your community. I am confident that together we can chart a solid course for local governments well into the 1990's.

Yours sincerely,

Gordon Wray,
Minister.

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Introduction

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Local governments in the Northwest Territories are much like their counterparts in the rest of Canada. In the Canadian federal system, the constitutional jurisdiction for municipal institutions lies with provinces. The Government of the Northwest Territories is given the same powers provinces have with regard to municipal institutions. In the provinces and territories, local governments rely significantly on the financial assistance from the senior governments. In recent years, several provinces have reviewed their financial relationships with local governments. The Department of Municipal and Community Affairs is doing so now, and is seeking input from local governments through this discussion paper.

An understanding of the history of local government development in the North is helpful when considering key questions that are raised in this discussion paper. What should the nature of the financial relationship between local governments and the Territorial government be? How should Territorial financial assistance to local governments be structured? How can local governments be more financially responsible and accountable to their own residents?

Before the transfer of territorial administration to Yellowknife in 1967, there were only a few established municipal units of government in the Northwest Territories. The federal government attempted to administer at the local level by stationing Northern Service Officers in each community. However, their effectiveness was limited. Indeed, when conducting an inquiry on northern government development, the Advisory Commission on the Development of Government in the Northwest Territories (the Carrothers Commission) recognized the difficulty that the Territorial government would have in dealing with local matters because of the "absence of municipal institutions throughout most of the North".

Along with recommending the transfer of government to Yellowknife, the Carrothers Commission placed a heavy emphasis on the establishment of a territorial Department of Local Government* as a vehicle for local government development. The Department was established in 1967. From municipal districts evolved towns and villages. The Town of Yellowknife became a City in 1970. A *Hamlet Ordinance* was passed in 1969 creating the first hamlets. Settlements were recognized, and in 1974 the *Municipal Ordinance* was redrafted to include the administration of all communities.

Most of the communities in the Northwest Territories are organized along the lines of the southern Canadian municipal model. However, unique forms of local government, such as charter communities, are also emerging. Even hamlets, which have a conventional municipal government structure, have been financed by the Territorial government in a manner not found elsewhere in Canada. The jurisdiction of the municipal governments has mostly been in the provision of "hard" services: water, sewer and garbage services; zoning; roads, sidewalks, and street lights; fire protection and by-law enforcement; and community recreation.

The aim of this Discussion Paper is to give each reader an overall view of what is being proposed in the major areas of the financial relationship between the Territorial government and local governments.

* *The name of the Department was changed to Department of Municipal and Community Affairs in June, 1986.*

2 History of Intergovernmental Financing Relationships

Financing Hamlets

Before local government structures were established, the "hard" services were provided by the Federal Government and then later by the Government of the Northwest Territories (GNWT). Both capital infrastructure development and service delivery were the responsibility of these governments. The Territorial government would pass the ownership and control of the capital assets to the hamlet. As well, the GNWT would give the hamlet "operations and maintenance" (O&M) funding to deliver municipal services.

During this period of municipal development, the greater emphasis was placed on seeing communities become politically organized and establish formal local government structures. Less importance was placed on rationalizing administrative and fiscal arrangements.

The number of hamlets grew quickly in the 1970's (from seven in 1972 to 20 in 1980 to 36 in 1988); and the Department of Local Government recognized the growing need to evaluate its financing arrangements with local governments.

Before 1977, hamlets in each administrative region of the Northwest Territories were provided with O&M funding that was determined annually by that region's senior official for the Department of Local Government. This procedure unintentionally created inequity among the levels of funding that hamlets received, because communities of similar sizes and with similar responsibilities received different levels of funding. The Department made a series of modifications to its method of funding hamlets over the next five years, and in 1981, adopted the basic standard formula that is in place today. Since then, because of the heightened priority for community recreation services, and the heavy financial demand of water and sewer services, new financial assistance programs have been introduced which are specifically directed at these services.

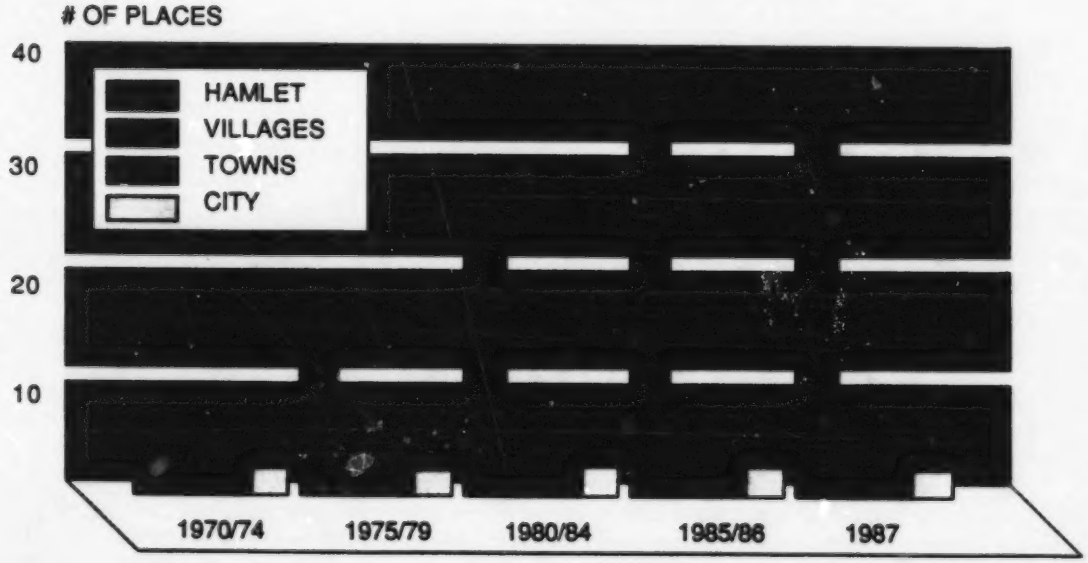
Financing Tax-Based Municipalities

There were a handful of larger communities that were incorporated as villages, towns and the City of Yellowknife, which were structured along typical municipal lines. They were given the authority to levy and collect their own taxes, and were given the power to borrow.

Financing arrangements between the Territorial Government and these local governments were different from those with hamlets. In capital assistance programs, funding was provided specifically for water and sanitation services, and road construction (including paving and

Cumulative Growth of Municipal Governments

1970 - 1987



sidewalks). The nature of the assistance programs was such that the money was given in the form of contributions for approved projects and the municipal government was left pretty much on its own to get the capital work done.

Operations and maintenance (O&M) assistance was also determined on a basis different from that for hamlets. Before 1981, municipal taxing authorities received per capita grants for operations, along with a 50/50 cost shared road maintenance subsidy. These programs were discontinued in 1981 when they were replaced by a formula known as the "equalization contribution".

In addition to capital and operations assistance, the Territorial government continued to pay grants in lieu of taxes to taxing authorities at the same rate as if the GNWT-owned properties were privately held and taxed.

3 Changes and Challenges

With the introduction of new local government legislation in 1987, the Government of the Northwest Territories created the possibility for smaller communities to become municipal taxing authorities, with borrowing capability. As well, new emphasis was placed on getting as much local participation in capital infrastructure development as individual communities wanted, and were capable of handling.

There is also a growing awareness that the formula arrangements for municipal operations and maintenance (O&M) funding have not achieved all of the desired objectives of equity and fairness. Rapid expansion in some communities has also placed a significant burden on both levels of government - municipal and territorial - in their attempts to ensure that adequate inventories of developed land are available.

Increasing demands for municipal services, such as water delivery, have made both levels of government consider policies which would ensure that the demands would be met, and that fair prices would be charged to all consumers.

Capital Assistance

4

What Exists Now?

The Department of Municipal and Community Affairs presently provides capital assistance to local governments for municipal buildings, equipment, and works - also known as "infrastructure' - under several different capital programs, including fire protection, road maintenance, public buildings, site development, road construction, water and sanitation, recreation facilities, and community planning.

In most of the capital programs for villages, towns and the City, the Department of Municipal and Community Affairs provides funding contributions and/or technical and administrative support. In settlements and hamlets the Department, working with the Department of Public Works, has usually built the infrastructure or purchased the equipment itself, carrying out the capital project on behalf of the local government.

Some of the Department's present capital assistance programs were developed independent of the others over the past 20 years, as municipal infrastructure needs became apparent. Each program has had its own standards and criteria, such as eligibility for assistance, cost-sharing, and the degree of responsibility and authority a local government could have for doing their own capital projects.

Why Change?

Local governments increasingly want to know how much and what kinds of financial assistance they are eligible for. They also want to know if they are receiving a fair share of the Department's capital funding. And they want to be able to take more authority and responsibility for managing municipal capital projects funded by the Government.

Also, some communities have shown that they are willing and capable of managing the planning and implementation stages of certain capital programs if they are given the appropriate authority and responsibility.

At the same time, the Government has concluded that the need for local governments to raise capital contributions for community works will continue and even increase. The financial pressures on the GNWT in the coming years simply do not allow the levels of financial assistance which NWT communities were able to enjoy in the 1970's and early 1980's.

In this regard, it has become clear that some communities which do not presently have the power to set property taxes and which to date have not paid part of the cost of their capital projects, are actually able to contribute because they have managed their funds wisely and because they have found other sources of revenue in the community besides property tax.

This local capability, in the Department's view, does and should increase community pride in and commitment to the works and facilities the community residents have financed. It is an essential part of developing greater independence for local governments.

Work started on a new Municipal Capital Assistance Policy in 1983 in an attempt to develop a more common and financially responsible approach to providing capital infrastructure to the local governments.

What are the Changes Being Proposed?

The Municipal Capital Assistance Policy includes most of the capital assistance programs and establishes which capital projects the Department supports as a priority, how a community's eligibility for assistance will be determined, and how local governments can assume authority for planning and implementing capital projects funded by the Department for their communities.

The bases for the policy are principles which were approved by the Executive Council in February, 1987:

- The GNWT should ensure that each NWT community can obtain a basic level of municipal infrastructure.
- The GNWT should ensure that each NWT community can obtain municipal infrastructure which is additional after needs for basic municipal infrastructure are met.
- Local governments should contribute to the capital costs of their municipal infrastructure.
- The design and construction of municipal infrastructure facilities should be standardized across the NWT.
- Local governments should be encouraged to plan for community development and to assess their needs and set priorities for municipal infrastructure.
- Incorporated local governments should own and manage the municipal infrastructure in their communities.
- The provision of capital assistance to obtain municipal infrastructure should take into account the ongoing costs of operation and maintenance of the infrastructure.

1) A system for funding capital projects according to:
   - whether the capital project is "basic" or "additional" in nature; (NOTE: Gyms, community halls, arenas, garages, fire halls and municipal offices are considered *basic* facilities. Curling rinks and permanent pools are considered *additional* facilities, for example.)
   - how much the local government can afford to contribute to the cost of the capital project;
   - the total cost of the capital project to the Government and to the local government.

   The system provides for the greatest proportion of Government funds to be allocated to "basic" projects of high capital cost, in communities which have the

least ability to pay. The smallest proportion of Government funds will be allocated to "additional" projects in communities with the most ability to pay.

2) A system for determining a community's ability to pay. Communities will be grouped according to:
   - most ability to pay
   - less ability to pay
   - little or no ability to pay

   Appendix 3 contains more detail on the proposed system and how it works.

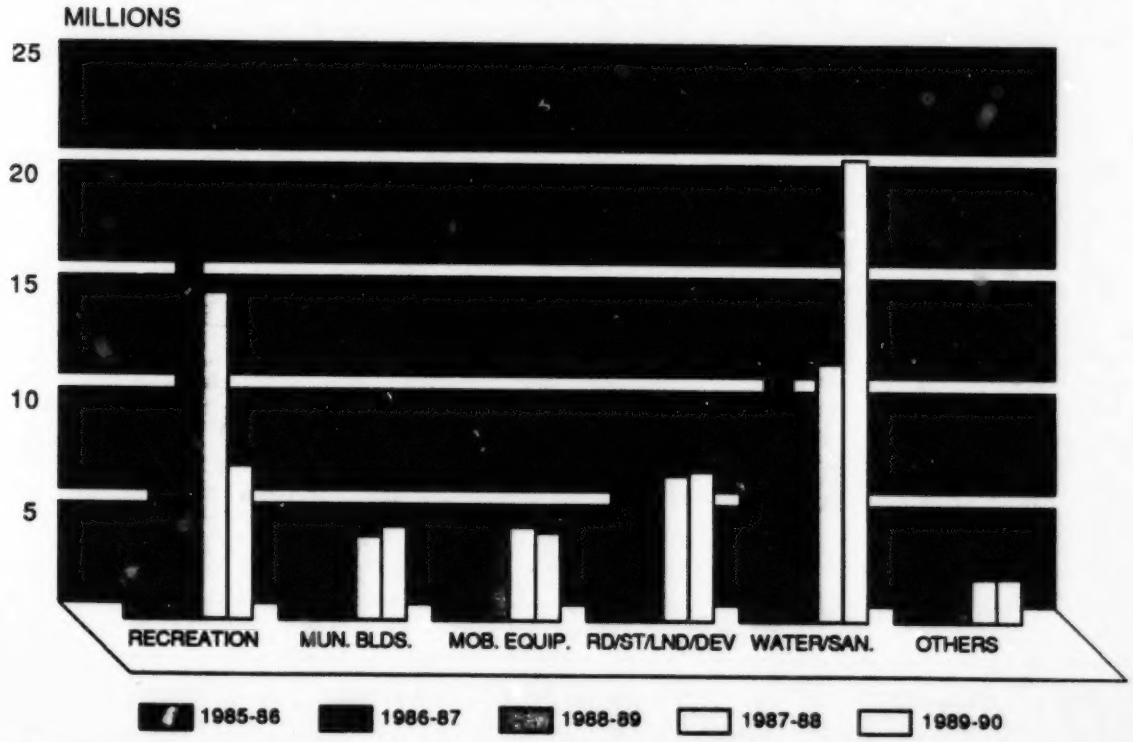
3) A system with opportunities for municipal governments to obtain partial or full authority to plan and implement individual capital projects funded under the policy.

   Where a city, town, village, hamlet or charter community is capable of undertaking complete management of one or more capital projects funded by the Department, and where it takes ownership and responsibility for the ongoing operation and maintenance of the capital facility or work, the Minister of Municipal and Community Affairs may sign a Program Authority Agreement granting the municipal government full capital authority. A local government may also exercise partial authority for a capital project by agreement with the Minister.

A further alternative which the Department will be examining with municipal governments is the "block funding" approach to capital financing. In general, this approach would involve the allocation of funding to municipalities on a global basis for all or some capital programs, rather than on the project-by-project basis which is currently followed. Capital shortfalls would need to be met within the fiscal capability of the municipal government. Similarly, surpluses could be held in reserve for future capital requirements. The challenge for the "block funding" approach will be to ensure that the limited capital funding available can be fairly and equitably distributed to meet pressing needs in all municipalities.

Comparison of Capital Expenditures by Program

Department of Municipal and Community Affairs



Land Development

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What Exists Now?

Land development includes preparing raw land for buildings by constructing roads required to bring municipal services to newly built areas; and improving drainage where necessary. Land development may also include installing piped water and sewer systems where economic to do so.

The Department of Municipal and Community Affairs works with hamlet and settlement councils to identify the need for developed lots through a community planning process which results in subdivision plans for the communities. Capital funds for developing lots are provided through the Department of Municipal and Community Affairs.

The Department of Public Works contracts out the construction work in communities and the Government's costs are partially recovered in accordance with the GNWT's Land Valuation Policy, through the sale or, as is more often the case, lease of the developed lots to individuals.

The City and the towns and villages are responsible for their own land development projects. The GNWT shares with them the costs of road construction and trunked water/sewer systems in accord with prevailing program standards and criteria. The City and the towns or villages may borrow the additional capital they need through the municipal debenture program of the Department. The borrowed funds are paid back through the sale of lots. More recently, the City of Yellowknife has allowed for the private sector to be involved in land development.

Why Change?

The resources of the Government of the Northwest Territories and communities to satisfy the demand for developed land are being strained. Some concerns are:

- Land development competes with other Government capital projects for funding, diverting funds from other much-needed capital programs.
- The GNWT does not have enough capital resources to meet all capital needs.
- The high costs and risk of land development have prohibited land development by private businesses in many communities.

What are the Main Changes Being Proposed?

In May, 1987, the Executive Council gave direction to the Department which will result in changes to the process of land development. Some key aspects of this direction include:

1) allowing hamlets, charter communities, the private sector, and not-for-profit organizations to be eligible to develop land.

2) creating a low interest land development loan fund to be used as a source of capital for all land developers.

3) creating a homeowners' land purchase rebate program.

Under the proposed policy, developers would apply for loan funds and, if accepted, would enter into development agreements with the GNWT which would specify the amounts of funding, payment schedules, subdivision designs and construction standards. Most likely, the fund would be arranged so that repayment of the loan is based on the sale or lease of lots. Interest charges on the loans would be lower than commercial bank rates.

Two other initiatives are being taken by the Department which are related to land development. First, the Land Valuation Policy is being revised to include all land development costs. Today, the lease or sale price of Commissioner's Land is lower than the actual cost of developing the land. Under the revised Land Valuation Policy, lease and sale costs would be set to recover either the actual cost of developing the land, or the cost of "replacing" the developed land (in other words, the cost of a similar parcel of developed land today).

Second, a homeowners' land mortgage program is being developed to provide long-term financial assistance to individuals to purchase or lease a house lot in a settlement, hamlet or charter community based on the household's ability to pay for total monthly housing costs.

Through this new approach to land development it is intended that:

- more local governments and private developers will have access to funds and will be able to develop land;
- financing will be easier to obtain and will cost less than commercial bank rates;
- more land development will take place;
- the cost of developing land will be more accurately identified and recovered through the sale or lease of lots;
- developed land will be affordable for more individuals through purchase or lease rebate programs (proposed for hamlets, charter communities and settlements only);
- the land development loan fund will "pay for itself" and so will allow Government capital to be freed for other important community needs.

6 Municipal Operating and Maintenance Funding

What Exists Now?

MUNICIPAL TAXING AUTHORITIES

Each of the municipal taxing authorities - the City of Yellowknife, the five towns and the two villages - receives an annual unconditional contribution, called an "equalization contribution", from the Department of Municipal and Community Affairs. The purpose of the contribution is to reduce the burden of municipal service costs to the local taxpayer. The amount of the contribution is determined by a formula which recognizes that local governments differ in their abilities to pay for the cost of providing municipal services. The differences among local governments show up in the total value of assessable property (the value of all property which could be subject to property taxation); the number of households (and therefore the number of people) the local government must serve; and the expenditures necessary to deliver municipal services in each community.

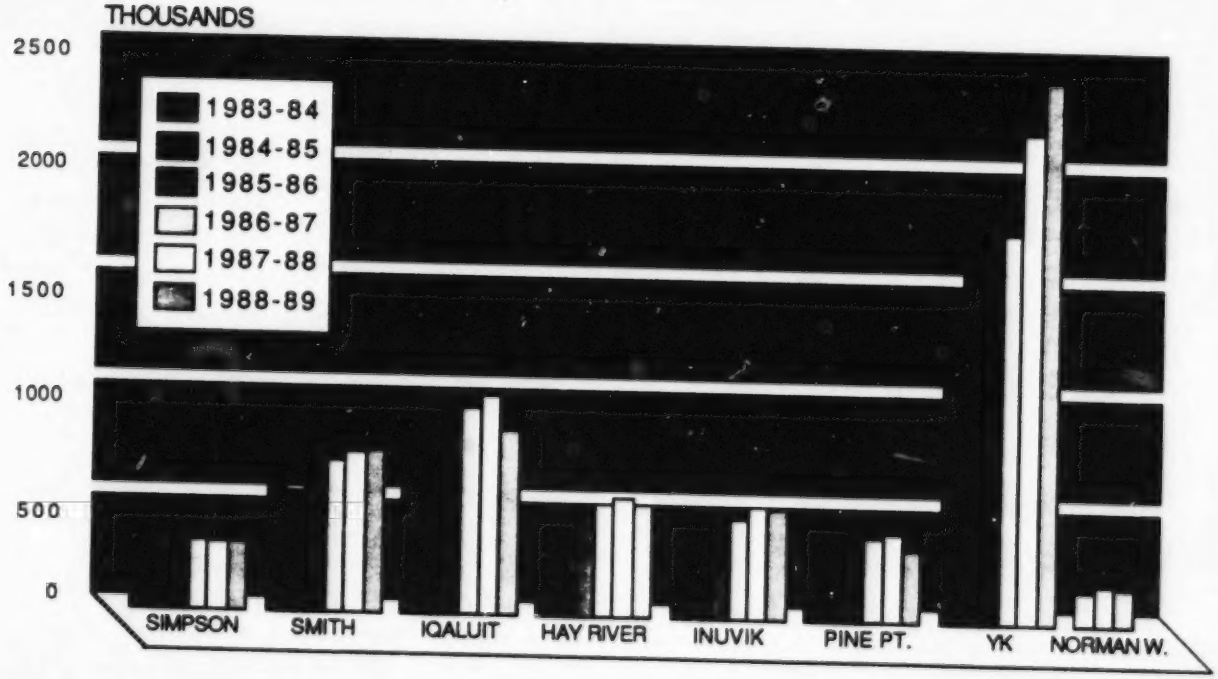
Under the present formula, a distribution factor for each municipal taxing authority is identified and is then converted into a percentage, and that percentage is multiplied against the total amount of funding voted each year by the Legislative Assembly for the equalization contribution. The formula assumed that the funding available for municipal governments would increase every year.

HAMLETS

Hamlets also receive an unconditional contribution each year from the Department of Municipal and Community Affairs. The purpose of the contribution is to provide the funding necessary for each hamlet to deliver municipal services and operate their municipal government to appropriate standards, within the limits of the GNWT's ability to fund them.

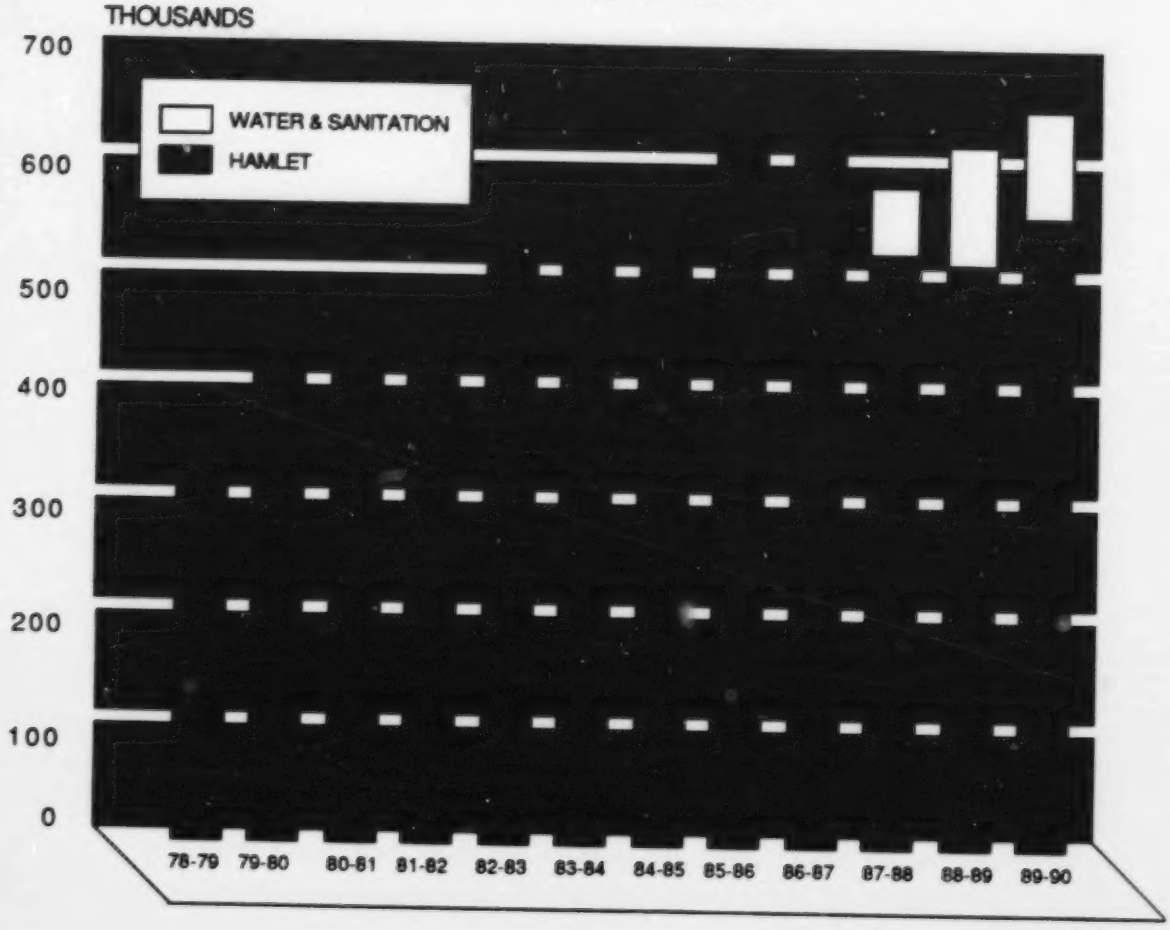
The contribution amount is calculated by a formula which uses various factors such as population, length of roads, number of street lights, actual fuel and electrical costs, etc. Each hamlet council then decides how much money it will budget for each municipal service. The hamlet is allowed to keep any surpluses it may have created because of good management, energy conserva-

Contributions to Municipal Taxing Authorities



Contributions

Average per Hamlet



tion, etc., and to use the surpluses to enhance basic municipal service levels in the community.

Conditional hamlet funding must be used for the purpose for which it is provided. This includes funding for such things as water and sewer services, airport operation, and recreation leaders and facility maintainers.

Communities which have recreation facilities also receive assistance for utilities and water and sewage costs for their facilities. The amount of assistance depends on the size and type of facility for which the community is eligible. Conditional funding is also provided to train and hire recreation staff in communities which meet the eligibility requirements. These funding conditions for recreation program assistance are also applied to the City, and to the towns and villages.

Communities which are responsible for operating airports receive money for O&M costs. This funding is determined by Federal Government guidelines and is conditional.

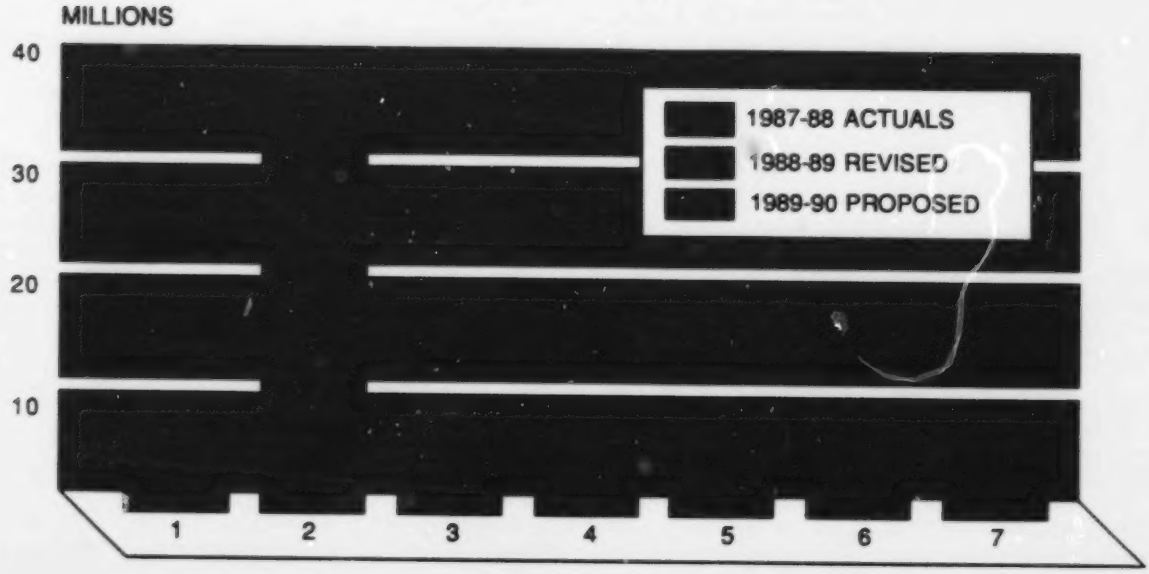
SETTLEMENTS

Settlement councils receive an annual per capita administration contribution. The contribution is $20.00 per capita, with a minimum of $2,000 and a maximum of $12,000 for each settlement.

Presently, the Department does not have any

Municipal and Community Affairs

Operations and Maintenance



1. Financial Assistance to Individuals*
2. Financial Assistance to Local Governments
3. Financial Assistance to Regional Councils
4. Financial Assistance to Organizations**
5. Central Services Government & Individuals***
6. Advice to Local Governments including Training
7. Bureaucracy and Support Staff

* *Includes Homeowner's Property Tax Rebate and Senior Citizen's Tax Rebate*
** *Organizations include Sport North, Inuit and Dene Games Bodies, etc.*
*** *Services include Land Administration, Survey & Mapping Services, and Assessment*

specified policy arrangements for funding settlements. Recently, in June 1987, a *Settlements Act* was passed by the Legislative Assembly. This Act, for the first time, enables community residents to apply to the Minister of Municipal and Community Affairs to have their community established as a settlement.

It is also now possible for the Minister to establish limited forms of local government called settlement corporations. Because a number of small communities are interested in settlement status, the Department will be working closely with them over the next year to identify their service needs more clearly. It is then planned that changes to settlement funding would be considered.

Why Change?

CITIES, TOWNS AND VILLAGES

The equalization formula was last fully applied in 1982. From 1983 to 1988, the Department has only been able to pass along to the City, and to the towns and villages, the same percentage increase it received during the budgetary process.

Formula revisions are necessary to re-establish an equitable distribution of these funds, recognizing that the size of the fund may not always increase every year.

HAMLETS

The factors used in the present Hamlet O&M funding formula need review. Based on knowledge gained by using the formula since 1980/81, there are other factors which can be used which will better reflect the individual needs of hamlets.

Also, the formula should better reflect that it is more expensive to provide services in some communities, such as those with more severe climates and higher living costs.

Because the amount of money available for hamlets is limited, it is necessary to ensure that GNWT funding is shared in a way that ensures the money goes where it is needed the most. It is also important for the hamlets which practice good financial management of Government funds to be given proper recognition in hamlet funding formulas.

What are the Changes Being Proposed?

CITIES, TOWNS AND VILLAGES

The equalization formula should work if it is used to determine what percentage of the total amount available each local government would receive. The formula should then recognize that the relative needs of the communities will change from year to year and that the GNWT's fiscal capability to increase the fund may not always grow at the same rate as the need. Therefore, it is proposed that the formula be kept but that an extra mathematical step be followed strictly in order to distribute the pot of money more fairly.

Appendix I contains an example of how the proposed formula would work.

HAMLETS

The major proposed changes to the formula are in these areas:

1) Staff:

The funding provided to the local government to hire staff would be on the basis the GNWT uses for similar positions. This includes salary, cost of recruitment, employer's share of employee benefits, settlement allowance, and housing allowance. With the housing allowance, hamlet employees have substantial financial assistance for home ownership in their communities.

Hamlets would receive funding for a core staff consisting of a Senior Administrative Officer, Secretary, General Foreman/Mechanic, and Heavy Equipment Operator. Depending on size, hamlets

would also receive full or part time funding for garbage truck drivers and helpers, bylaw officer/fire chief, and a second heavy equipment operator.

Staff funding would continue to be unconditional. Hamlets could hire the type and number of staff they desire with the funding provided.

However, for hamlets and charter communities with budgets in excess of two million dollars, conditional funding would also be provided to hire a controller/finance officer, in addition to the Senior Administrative Officer, with the necessary accounting skills for the position.

It is proposed that charter communities would be funded in generally the same way as hamlets, dependent on the range of authorities and services the charter community undertakes.

Appendix 2 contains a more detailed description of the proposed hamlet funding formula.

2) Garbage Services:

Partial funding is currently provided to hamlets through the Hamlet Operating Contribution formula to assist in providing garbage services. This funding has allowed hamlets to provide garbage services at less than the full cost. However, in many hamlets, it has been necessary to draw additional funding from other municipal services to subsidize the garbage rates.

It is proposed that effective April 1, 1990, funding for garbage services provided by the Hamlet Operating Contribution would be replaced with a garbage service rate subsidy patterned after the Water/Sewage Service Subsidy Program currently in place.

The subsidized rate would be targeted to private users in hamlets, charter communities and settlements and would be based on the charge for garbage services in Yellowknife as a proxy for an "affordable" rate. The current costs that are recovered through property taxes from private home owners and commercial users in Yellowknife are approximately $6.50 and $12.50 per month respectively. Rates to Government and industry users would not be subsidized.

Under this proposal, hamlets would be responsible to finance and acquire the garbage service vehicles required. The economic rate would include the capital cost of new and replacement vehicles. The Department would continue to provide capital funding for garbage vehicles for three fiscal years (until the end of the 1992/93 fiscal year). This three-year period would allow sufficient time for hamlets to accumulate adequate funds in a Vehicle Reserve Fund for the future vehicle purchases required.

3) Utilities (fuel and power):

It is proposed that the funding formula for utilities be changed to reflect a more energy efficient standard of building. Hamlets would receive one hundred percent of the funding provided by the new formula. For the first year only, if hamlets actually spend more than the amount provided by the formula they could claim the extra money spent based upon records of actual amounts consumed by each building.

All funded municipal buildings would be eligible and up to the design standard for that type of building.

If a hamlet spends less than the total formula amount calculated for their buildings these savings could be retained by the hamlet and used for other community purposes.

Further, should the condition or design of a building be below the standard used by the funding formula, it is proposed that extraordinary capital funding would be made available to undertake energy conservation retrofits to hamlet buildings subject to appropriate "pay back" criteria being met.

Water and Sewage Subsidy Program

7

What Exists Now?

CITIES, TOWNS AND VILLAGES

The water subsidy program established in 1974 pays a subsidy to the City and the towns and villages for trucked water delivery service to domestic residences. Any domestic residence which was able to receive services by an existing pipe system is not eligible for the subsidy.

Under the 1974 subsidy program the consumer pays:

- $5.00 a month for up to 4,000 liters, plus
- $5.00 a month for any portion of 2,000 liters after the first 4,000 liters, plus
- the actual cost of providing the service for any amount over 6,000 liters a month.

Why Change?

The 1974 water subsidy program was not a success. It was based on a level of service of 45 liters per person per day. This figure was based on the United Nations basic health standard, rather than on higher Canadian standards. Also, the rate which was to be charged to consumers for the first 4,000 liters - 0.0013 cents per liter - is now far too low given the present day costs of trucked water delivery service.

Furthermore, the 1974 program does not subsidize trucked sewage; this causes some householders to continue to use sewage disposal methods, other than trucked sewage pumpout, which can present hazards to public health and to the community environment. Finally, residents on piped water and sewer systems are not subsidized. Although the cost of piped service is generally lower than the cost of trucked service, it is still a difficult cost for some residents to bear.

What are the Main Changes Being Proposed?

The main changes being considered are that the new subsidy would:

1) include both water delivery and sewage collection,

2) include both trucked and piped customers,

3) be offered to private residential customers only,

4) be calculated so that private residents pay no more than 0.2 cents per liter which is the approximate cost of providing water/sewage service in Yellowknife. The Yellowknife cost is taken to be a "proxy" of affordability for private individuals to obtain water/sewage service.

HAMLETS

A water/sewage subsidy program has been in effect in hamlets and settlements for the past year (and will apply to charter communities). Because the program has recently been introduced in these communities no major changes to it are planned. Over the next three years, however, commencing April 1, 1990, hamlets and charter communities will be expected to begin to increase their water/sewage rates so that they can start to build up a fund to pay for the replacement of their water/sewage vehicles when their present vehicles need to be replaced. Under this plan, the GNWT would continue to fund water/sewage vehicles for three years (until March 31, 1993) to allow hamlets and charter communities time to build up their water/sewage vehicle reserve funds. This plan is intended to place more responsibility and control over essential municipal services clearly in the hands of the local government.

8 Property Taxation and Municipal Borrowing Powers

What Exists Now?

CITIES, TOWNS AND VILLAGES

In Canada, property tax has been used as the primary source of local funding for municipal government. Under the system of property assessment and taxation, the owners of assessable property are relied upon as major contributors to the costs of continuing municipal services and municipal projects. To see what share each property owner is to contribute, an "assessed value" is put on each property. This "assessed value" is based on the *Property Assessment and Taxation Act* and Regulations, and is intended to ensure that all properties are valued according to the same rules, so that the assessment on each property is *fair* compared to the assessments on other properties in the community.

When all the assessable property in the community has been assessed, the total amount of the municipal budget that needs to be raised by property taxes is divided by the total assessed value (in thousands of dollars) and the figure that results is called the *mill rate*. When the mill rate is multiplied by the assessed value of an individual's property (in thousands of dollars), the tax payable from that property has been calculated.

Just as an example, if a municipal government identified its total expenditure needs for a year at $2,000,000, and found that it could expect to receive $1,200,000 in financial grants and contributions from the Department of Municipal and Community Affairs or other GNWT Departments and that it could expect to collect $150,000 in fees for permits, licence, fines and other types of revenue, it would still need to raise $650,000 through property taxation. It would establish the mill rate by the following calculation:

$$\frac{\text{Total tax revenue required}}{\text{Total taxable assessment}} \times 1000 = \text{the mill rate}$$

If, for example, the total value of all the assessable municipality (the total taxable assessment) was $87,000,000, then the mill rate would be as follows:

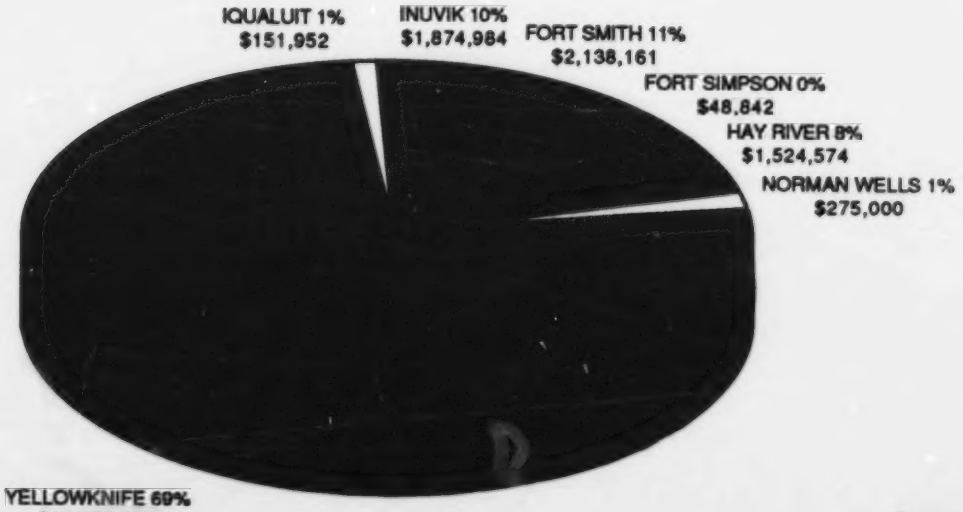
$$\frac{\$\ 650{,}000}{\$87{,}000{,}000} \times 1000 = 7.47 \text{ (the mill rate)}$$

So if, for example, there was a property with an assessed value of $55,200 the tax on that property would be:

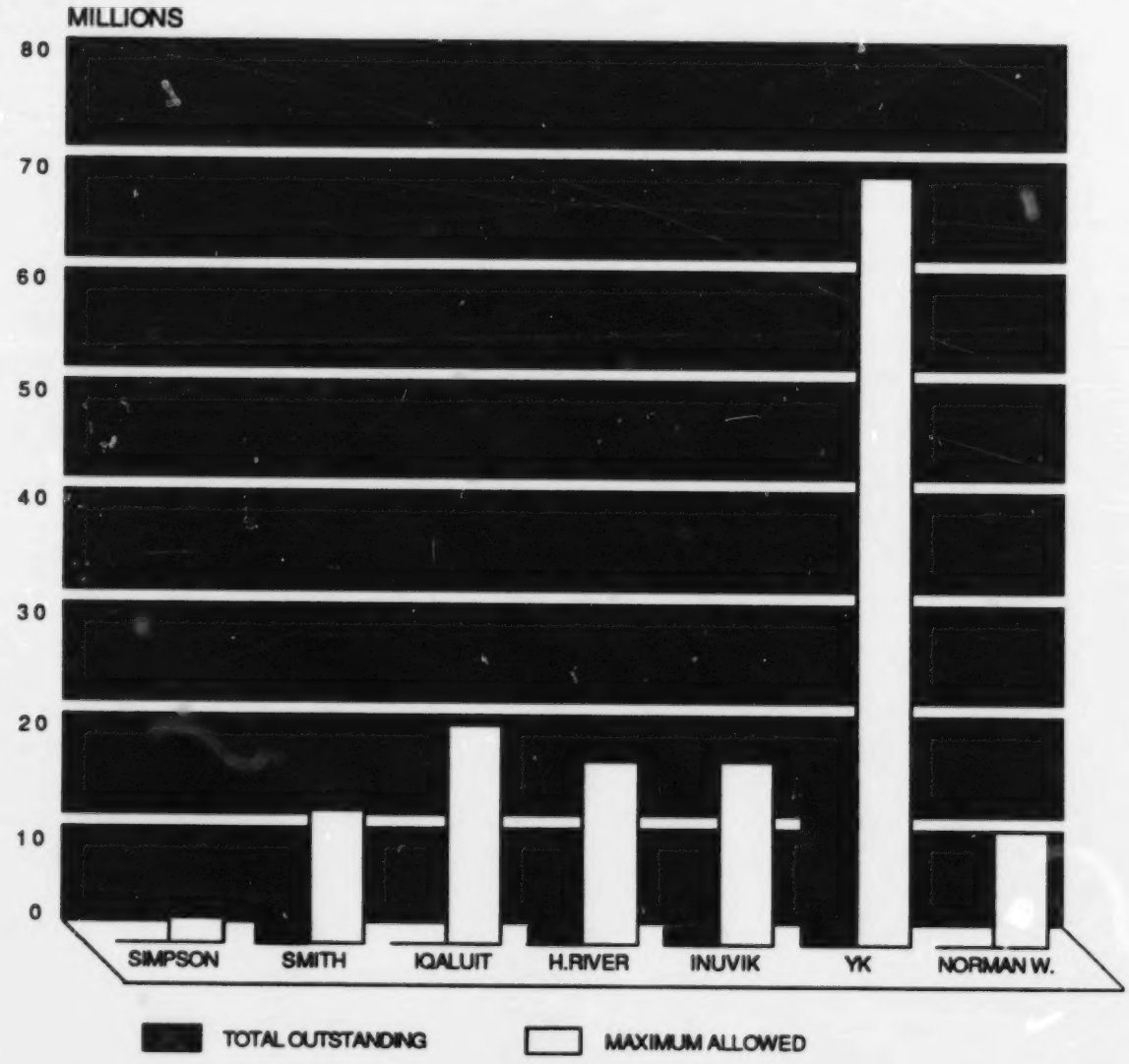
$$\$55{,}200 \times \frac{7.47}{1000} = \$412.34 \text{ (Property tax owed)}$$

Tax-Based Municipalities - Debenture Debts

December 31, 1987



Tax-Based Municipalities Debenture Debts
December 31, 1987



MUNICIPAL TAXATION AREAS

Cities, towns and villages have the authority to borrow money by way of general and self-liquidating debentures for capital items. A city or town may borrow up to 20% of its assessment base while a village may borrow up to 10% of its assessment base.

Presently there are eight communities whose municipal governments have municipal taxing authority: the City of Yellowknife; the Towns of Fort Smith, Hay River, Inuvik, Iqaluit and Pine Point; and the Villages of Fort Simpson and Norman Wells.

GENERAL TAXATION AREA

In nearly all of the communities of the Northwest Territories, other than the eight described above, the GNWT levies property taxes and the money collected goes into the general revenue of the Government to offset the Government's costs of providing services. The approximate amount of property tax revenue collected in the General Taxation Area in 1986-87 was nearly $4 million.

Why Change?

The main reason for making changes to the present system of property taxation is that the Department of Municipal and Community Affairs sees the need for more local governments - hamlets and charter communities - to begin to use the property tax in their communities as a source of local revenue. Relying on money raised by a community's own efforts helps to make that community more independent and able to make spending choices about the kinds and levels of municipal services it will provide. Also, when the local government is spending money collected from the local residents, it is more accountable to the people of the community, and more inclined to spend the money wisely.

What are the Changes Being Proposed?

Under the *Property Assessment and Taxation Act,* all the area outside the City and the towns and villages has been established as one General Taxation Area. This means that the Government has the legal right to assess "assessable property" anywhere in the Northwest Territories, unless the Minister of Municipal and Community Affairs excludes an area by written order.

The *Property Assessment and Taxation Act* also allows the council of a hamlet or a charter community to apply to the Minister of Municipal and Community Affairs to become a municipal taxing authority. The Department of Municipal and Community Affairs is considering alternate funding mechanisms for hamlets and charter communities which become taxing authorities. One possible way is to include new taxing authorities in the equalization formula which is used to fund the cities, towns or villages, as discussed in Appendix 1. Another possible way might be for those local governments which become municipal taxing authorities to continue to receive the O&M formula funding which they currently receive from the GNWT. Possibly, a combination of these approaches might prove beneficial to the new taxing authorities and the GNWT. As well, alternative sources of revenue raising which would allow local governments to be more financially self-sufficient should be investigated. The Government of the Northwest Territories would continue to conduct the property assessments for the municipal taxing authority at no charge.

Hamlets and charter communities which become municipal taxing authorities would also be eligible to borrow money on a long term basis for capital items. The local government could enact a borrowing by-law (subject to the approval of ratepayers and the Minister of Municipal and Community Affairs) to borrow funds worth up to 10 per cent of the value of their assessment base.

The Next Steps

9

This Public Discussion Paper has outlined a view of the Minister and the Department of Municipal and Community Affairs of the major issues in municipal financing that are facing local governments, as well as the Territorial government, as they enter the 1990's. The time is right for the local governments to provide their best advice to the Department and the Minister on the proposals that are presented. A system for improving capital assistance to all local governments has been put forward. Land development policy proposals are presented. Proposals for fairer and more understandable O&M funding for local governments are ready for discussion. And it is essential that further efforts be made to promote greater local government self-reliance and financial responsibility by encouraging more local governments to seek municipal taxing authority.

The Minister and the Department intend to seek out the advice of local governments through the spring and summer of 1989 on these policy proposals. A committee with joint membership from the NWT Association of Municipalities, the NWT Association of Municipal Administrators, and the Department of Municipal and Community Affairs will be examining the proposals in this Public Discussion Paper in greater detail and coming with policy recommendations.

The Minister and the Department hope that with this consultative approach, many positive changes in municipal financing will result, leading to even stronger and more effective local governments.

Appendices

Appendix 1: Equalization Grant Calculations - With Proposed Formula

	Assessment Information				Equalization Calculations					
	Number of Households	Land	Improvements	Total	A	Municipal Expenditure	C	D	F Distribution Factor	Proposed Equalization Grant
Village No. 1	290	$ 3,400,000	$10,400,000	$13,800,000	47,586	$ 800,000	0.17021	0.25107	0.24037	$168,257
Town No. 2	740	17,900,000	34,600,000	52,500,000	70,946	1,900,000	0.40426	0.39996	0.38291	268,034
Town No. 3	1050	34,300,000	45,400,000	79,700,000	75,905	2,000,000	0.42553	0.39351	0.37673	263,709
	2080			146,000,000		4,700,000		1.04454	1.00000	700,000

A = Individual Municipal Assessment/No. Households

B = Total Municipal Assessment (All Communities)/Total Households (All Communities) equals = 70,192

C = Individual Municipal Expenditures/Total Municipal Expenditures

D = B/A x C (for each specific community)

F = D (For Specific Community) /Sum of all D's (All Communities)

Appendix 2: Proposed Operations and Maintenance Funding Formula for Hamlets

Unconditional Funding

General Government Services	Staff[a]	$87,379 + SA[b] x .80[c]
	Per Capita	$10 x population x .80
	Other	$42,000 x .80
General Works	Staff	($60,488 + 1 SA) x .80
		Population
Protective Services	Staff	701-1500: $49,330 + 1 SA 351-700 : $24,664 + .5 SA 100-350 : $12,332 + .25 SA
	Per Capita	$2.60 x population
	Other	$10,700
		Population
Transportation	Staff	701-1500: $146,052 + 2.5 SA 351-700 : $87,287 + 1.5 SA 100-350 : $38,448 + .5 SA
Other	$4.10 x NCI[d] x metres of road (non-water/sewage and garbage roads)	
Building Maintenance		
- Garage[e]/firehalls	-	$21.00 per square metre
- Offices	-	$15.20 per square metre
- Janitorial	-	$ 5.00 per square metre
- Residential	-	$22.75 per square metre
Recreational Facilities Maintenance		
a) Support/Ancillary Areas	-	All Facilities - $20 per square metre
b) Program Space		
- Gym	-	$20 per square metre
- Hall	-	$20 per square metre
- Outdoor Arena	-	$ 1 per square metre
- Recreational Arena	-	$ 5 per square metre
- Competition Arena	-	$ 5 per square metre
- Curling Rink	-	$ 5 per square metre
- Above Ground Pool	-	$15 per square metre
- Playground	-	$100/eligible playground
- Playfield	-	$250/eligible playfield
Utilities		See text, page 16

Miscellaneous		$135 per culvert $195 per streetlight
Land Administration per capita	-	$10 x population
Community Planning		communities with a community plan and zoning bylaw - $10 x population
Recreation		per capita population[f]
for the first	200 - 500	$20 x population
for the next	501 - 1000	$10 x population
for the next	1001 - 2000	$ 5 x population
over	2000	$ 3 x population

Notes

a) Staff - funding for staff includes salary, recruiting/hiring costs, employer's share of employee benefits, and housing allowance.

b) SA - Settlement Allowance, provided at GNWT rates.

c) As a result of communities being able to charge at least 15% of General Government Services to the Water and Sewage Subsidy Program which is then fully recoverable through user fee charges. Similarly, a further 5% would also be recoverable through charges for garbage services.

d) NCI - Northern Community Index, a cost indicator used to reflect higher cost of providing services in some communities.

e) Garage and other support building space for water, sewage and garbage service operations would *not* be eligible for funding under this formula. The costs associated with this space would be recovered through the service rates for water/sewage or garbage service and the associated GNWT subsidy program.

f) It is proposed that a minimum of $5000 of recreation per capita funding would be provided to each community.

Conditional Funding
This funding is provided if certain requirements are met and can be only for the purpose for which it is provided.

1) Recreation

Staff - Community Recreation Leader - $30,000 + .80 SA
Facility Manager/Maintainer - to $25,000 + SA
(depending on level of training and experience)

Above Ground Pool Program
Pool Supervisor - $3230 + SA
(employed for 13 weeks)
Lifeguard Instructor - $2190 + SA
(employed for 13 weeks)

GNWT also recruits, hires and transports Pool Supervisors on behalf of participating local governments.

2) Airports

Actual operating cost provided to airports in the program.

3) Water & sewage funding

a) Subsidy Payments
i) Commercial Users = (Economic rate - .004) x consumption x number of users
ii) Private Users = (Economic rate - .002) - consumption x number of users

b) Funding for Water & Sewage Charges to municipal buildings:

Building x number of washrooms x (Standard Consumption/unit or washroom/month or actual consumption) x 12 x economic rate.

4) Controller/Finance Officer for hamlets or charter communities with budgets in excess of $2 million: $45,325 + SA.

Appendix 3: Capital Assistance to Local Governments - Proposed Funding Schedules

The *Basic Facilities Grid Schedule* and the *Additional Facilities Grid Schedule* on the next page show the percentages of funding the Department of Municipal and Community Affairs will contribute towards the cost of municipal facilities or infrastructure.

To calculate how much the GNWT would contribute to a project:

1. Determine whether the project is basic or additional and select the correct grid schedule.

2. Determine the cost of the project.

3. Calculate which category of ability to pay the community is in: "most", "less", or "least" ability to pay. (See the last page of this appendix.)

4. Starting with the bottom row of the "ability to pay" column, calculate the percentage the GNWT will contribute toward the first $100,000 of the project cost. For projects which cost more than $100,000, use the percentage in the middle row of the community's "ability to pay" column to calculate the percentage the GNWT will contribute to the part of the project cost which is between $100,000 and $999,999. For projects of $1,000,000 or more, use the percentage in the top row of the community's "ability to pay" column to calculate how much the GNWT will contribute toward the part of the project cost which is over a million dollars.

EXAMPLE:

For a $200,000 basic hamlet office, a community with "less" ability to pay, the calculation would be:

1. 85% of the first $100,000 is	$ 85,000
2. 95% of the second $100,000	$ 95,000
	$180,000

Therefore, the GNWT would contribute $180,000 towards the capital cost of the hamlet office. The local government would be expected to contribute $20,000 toward the project.

Department's Contribution to Capital Municipal Projects

Basic Facilities Grid Schedule

	Community's Ability to Pay		
	Most	Less	Least
$1,000,000 and over	90%	100%	100%
$100,000 - $999,999	80%	95%	100%
First $100,000	70%	85%	95%

Additional Facilities Grid Schedule

	Community's Ability to Pay		
	Most	Less	Least
$1,000,000 and over	25%	50%	75%
$100,000 - $999,999	25%	50%	75%
First $100,000	0%	25%	50%

ABILITY TO PAY: CRITERIA WEIGHTINGS AND CATEGORIES

Criteria Weightings	Criteria	Categories	Value
50%	A. Adjusted Per Capita Total Income	Less than $5,000	0
		$5,000 - $9,000	50
		$10,000 or more	100
30%	B. Assessed Value of Industrial and Commercial Property	Less than $1 million	0
		$1 to $10 million	50
		$10 million or more	100
20%	C. Working Age Population	Less than 1000	0
		1000 - 5000	50
		5000 or more	100

FORMULA TO DETERMINE A COMMUNITY'S SCORE

.5 (A) + .3 (B) + .2 (C) = D (Category of ability to pay.)

Categories of Communities

#1 - Communities which score 80 or more - "Most" ability to pay

#2 - Communities which score 40 to 79 - "Less" ability to pay

#3 - Communities which score less than 40 - "Least" ability to pay